Tiffany (NJ) Inc. et al v. eBay Inc. Doc. 15

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY, Plaintiffs, v. eBAY INC., Defendant.	04 Civ. 4607 (NRB) ECF Case

MEMORANDUM OF LAW IN SUPPORT OF EBAY'S MOTION TO AMEND ITS ANSWER

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Defendant eBay Inc. ("eBay"), through its attorneys, Weil, Gotshal & Manges LLP, respectfully submits this Memorandum of Law in support of its Motion to Amend its Answer to add an affirmative defense of unclean hands, pursuant to Federal Rule of Civil Procedure 15(a). A copy of the proposed Amended Answer is attached as Exhibit A to the Declaration of R. Bruce Rich, dated August 11, 2005 ("Rich Dec."), filed concurrently herewith. The basis for the proposed amendment is Tiffany (NJ) Inc. and Tiffany and Company's (collectively "Tiffany") persistent false statements to eBay users and to the public at large that, unless they purchase Tiffany items directly from Tiffany itself, they are buying counterfeit merchandise. Such statements are obviously false because, albeit to Tiffany's dissatisfaction, there is no bar to reselling Tiffany items, whether on eBay or through other channels of resale.

Tiffany is obviously well aware of this fact. In recent deposition testimony, Tiffany admitted that, at most, its statements are only true with respect to brand new Tiffany merchandise not yet released into channels of commerce. This after-the-fact interpretation of these misrepresentations does not cure their misleading nature. Neither the advertisement nor Tiffany's communications with the public ever make any distinction between "new" and "used" goods. Tiffany has further conceded by way of deposition testimony that its statements are literally false insofar as up until five years ago, even new Tiffany merchandise was available from non-Tiffany authorized retailers in the U.S. Indeed, such channels of third party distribution are still authorized internationally.

Tiffany's sweeping misrepresentations relate to the very trademark rights it now asserts in this lawsuit and amply support eBay's assertion of an unclean hands defense. On the one hand, Tiffany is seeking the aid of this Court to protect its trademark rights from alleged sales of counterfeit goods via eBay. On the other hand, by perpetuating the false notion that products bearing the Tiffany marks are only available through Tiffany stores, catalogues and websites, Tiffany improperly seeks to enlarge the scope of the very trademark rights it would assert against eBay. Tiffany thereby is not only itself fostering and exacerbating the very market confusion as to the provenance of claimed Tiffany merchandise sold via eBay that it places at eBay's doorstep, but also seeks to deter eBay users from purchasing legitimate Tiffany merchandise from anywhere other than Tiffany outlets, to both eBay's and its customers' disadvantage. While Tiffany has an obvious financial interest in having purchasers buy from it directly, that does not give Tiffany a license to thwart legitimate sales through secondary markets.

In an attempt to defend its conduct and in response to eBay's letter to the Court dated June 17, 2005 requesting leave to amend its Answer, Tiffany has made a number of incorrect and misleading assertions. Specifically, in its June 24, 2005 letter to the Court, Tiffany: (1) attempts to shoehorn law specific to Lanham Act Section 43(a) false advertising claims – claims which are not at issue here – into legal requirements applicable to an unclean hands defense; and (2) selectively quotes snippets from case law to create the misleading impression that the unclean hands defense in trademark actions is limited to inequitable conduct that occurred during a plaintiff's acquisition – but never the use – of trademark rights. We address those assertions herein and demonstrate why eBay's motion to amend should be granted.

STATEMENT OF FACTS

I. PROCEDURAL HISTORY

On July 15, 2004, Tiffany filed its First Amended Complaint (hereinafter "Complaint") alleging that eBay facilitates and participates in the counterfeiting, infringement and false advertising of Tiffany's federally registered trademarks in violation of the Lanham Act and the common law. See Complaint at ¶¶ 4, 44-49 (Docket Entry No. 4). Tiffany's Complaint also alleges that eBay's conduct violates the federal and New York State antidilution statutes, as well as common law unfair competition laws. Id. at ¶¶ 50-55. Tiffany's claims are based, in large part, upon its allegation that the sale on eBay by third parties of counterfeit goods bearing the Tiffany trademarks is intended to cause – and does cause – public confusion, such that prospective customers of Tiffany merchandise are led to believe that the counterfeit products are authentic. See id. at ¶ 36. Among the exhibits attached to the Complaint is a news article in which counsel for Tiffany states that "[t]he only genuine Tiffany merchandise is in a Tiffany store or on Tiffany's website." See Complaint at Exhibit 1.

On October 1, 2004, eBay filed its Answer (Docket Entry No. 8), denying certain allegations, admitting others, and asserting certain affirmative defenses. Fact discovery commenced on October 22, 2004. The parties have been and are producing documents on a rolling basis, and depositions recently commenced, on July 19, 2005. On August 5, 2005, counsel for Tiffany lodged with the Court a proposed Stipulation and Order which, *inter alia*, extends the fact discovery period through October 7, 2005.

On May 3, 2005, based on a preliminary review of Tiffany's production as of that date, eBay requested Tiffany's consent to amend its Answer to add an affirmative defense of unclean hands. See Rich Dec., Exhibit H. Having not received Tiffany's consent by mid-June,[1] eBay submitted to the Court a written request for a conference to discuss its proposed amendment. See Rich Dec., Exhibit J. By virtue of a July 6, 2005 telephone call from chambers, eBay received permission to file its motion to amend.

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[1] In its May 6, 2005 letter, Tiffany responded that eBay's letter provided insufficient information for Tiffany to determine whether to consent to eBay's proposed amendment. See Rich Dec., Exhibit I.

During the July 20, 2005 deposition of Ms. Ewa Zalewska – Tiffany's Rule 30(b)(6) witness concerning Tiffany's practices for monitoring eBay listings and participation in eBay's rights owners programs – Tiffany provided testimony concerning the misrepresentations that form the basis of this motion. This testimony only reinforces the merits of eBay's proposed unclean hands defense. Additional depositions of Tiffany employees responsible for communicating with eBay members about the sources of genuine Tiffany merchandise are anticipated to be scheduled shortly.

II. FACTS SUPPORTING EBAY'S ABILITY SUFFICIENTLY TO PLEAD AN UNCLEAN HANDS DEFENSE

eBay's proposed affirmative defense of unclean hands is based upon, *inter alia*, numerous documents produced by Tiffany to date and now, deposition testimony, that demonstrate Tiffany's practice of misrepresenting to the public that any products bearing the Tiffany trademarks are counterfeit and infringing unless acquired directly from Tiffany. Attached to the Rich Declaration at Exhibit B are copies of exemplary documents produced by Tiffany where, for example, Tiffany instructs eBay users that their Tiffany items are only authentic if they "come directly from a Tiffany & Co. Retail store location, catalog or via our internet ecommerce site," that "[i]f you [eBay member] have not purchased your inventory from a Tiffany and Co. Retail store or via our website (www.tiffany.com) then you have counterfeit merchandise," that Tiffany & Co. "are the only authorized sellers" of Tiffany merchandise and that "no one on eBay has [Tiffany's] permission to sell [Tiffany] merchandise." See Rich Dec., Exhibit B at 43623-24, 154, 39637, 39082. Similarly, on its "About Me" webpage, and in advertisements in national media – including at least once in Bazaar magazine – Tiffany states that "[g]enuine Tiffany & Co. merchandise is available only through Tiffany & Co. stores and boutiques, Tiffany & Co. catalogues and [via the web at] Tiffany.com." See Rich Dec., Exhibit G.

At her recent deposition, Ms. Zalewska attempted to clarify that such statements are applicable to "brand new" items only. See Rich Dec., Exhibit K, Zalewska Tr. at 55-57, 71-72. Tiffany defines "brand new" merchandise as "not coming from secondary market[s], coming from the primary retailer." Id. However, in correspondence with eBay sellers during the course of their transactions in eBay's secondary market, Tiffany conveniently neglects this distinction.

Moreover, even if Tiffany's statements were limited to the sources of "brand new" Tiffany merchandise, they would be true only with respect to merchandise manufactured and sold in the U.S. since January 2000. Prior to that time, Tiffany had numerous well-documented trade accounts with retailers in the U.S. which were authorized to sell "brand new" Tiffany merchandise – a practice that Tiffany has continued to date in many nations outside the U.S. See Rich Dec., Exhibit L; see also Rich Dec., Exhibit K, Zalewska Tr. at 60-61.

Tiffany's deposition testimony and documents also illustrate its recurring practice of warning eBay members that since items bearing the Tiffany trademarks are counterfeit if purchased from any place other than Tiffany itself, resale of that merchandise is a federal offense and punishable by law both criminally and civilly. See Rich Dec., Exhibit C at 12281, 24100. Tiffany has threatened eBay sellers that even if they do not know that their eBay listings offer counterfeit merchandise, they could nevertheless be liable criminally because "counterfeiting is a crime that does not require actual intent to be committed" (see, e.g., Rich Dec., Exhibit K, Zalewska Tr. at 78-81) – an assertion that is incorrect as a matter of law. See, e.g., J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, §30:118 (4th ed. 2005).

As a result of these threats, some eBay members have become convinced – wrongly – that they can buy Tiffany merchandise only from Tiffany, and that this merchandise cannot be legitimately resold. See Rich Dec., Exhibit D at 3438 ("In the future I will go on your web site to purchase Tiffany items!!"); 31619 ("I genuinely believed that I was going to purchase genuine Tiffany goods. . . until I read your company's statement that you do not sell the goods other than Tiffany's website or Tiffany's stores. . . .").

Tiffany's private awareness of the insupportably overbroad nature of its scare campaign directed to eBay's customers, among others, is reflected in its own practice of turning to eBay to purchase vintage Tiffany merchandise for Tiffany & Co.'s Archives collection. See Rich Dec., Exhibit F, Sandecki Tr. at 10, 39-41 (testimony of Tiffany's Director of Archives concerning systematic purchases of merchandise on eBay).

Tiffany's misrepresentations constitute a more than sufficient basis for eBay to allege an affirmative defense of unclean hands.

ARGUMENT

I. AMENDMENTS TO PLEADINGS ARE LIBERALLY GRANTED PURSUANT TO FED. R. CIV. P. 15(A)

eBay's motion to amend its Answer to add the affirmative defense of unclean hands is governed by Federal Rule of Civil Procedure 15(a):

> A party may amend the party's pleading once as a matter of course at any time before a responsive pleading is served . . . . Otherwise a party may amend the party's pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires.

Fed. R. Civ. P. 15(a). Courts in the Second Circuit routinely allow such amendments. See, e.g., Rachman Bag Co. v. Liberty Mut. Ins. Co., 46 F.3d 230, 235 (2d Cir. 1995). Given the liberal policy in favor of amendments, courts grant leave to amend unless there is "undue delay, bad faith or dilatory motive on the part of the movant . . . [or] undue prejudice to the opposing party by virtue of allowance of the amendment." Foman v. Davis, 371 U.S. 178, 182 (1962). Consistent with Foman, the rule in the Second Circuit is that in the absence of a showing by the nonmovant of prejudice, bad faith or dilatory motive, amendments to pleadings should be allowed. See Block v. First Blood Assocs., 988 F.2d 344, 350 (2d Cir. 1993) (citing State Teachers Ret. Bd. v. Fluor Corp., 654 F.2d 843, 856 (2d Cir. 1981)).

eBay comfortably fits these parameters. eBay alerted Tiffany early in the discovery process as to its intent to amend its Answer to interpose an unclean hands defense. This motion follows timely on the Court's permission to seek leave to do so, as well as eBay's conduct of the first Tiffany depositions, which, as cited, further lend support for the interposition of this defense.

Insofar as discovery is still underway – indeed, a joint request to extend the fact discovery cut-off date to October 7, 2005 is now before the Court – Tiffany cannot demonstrate that it will be prejudiced by the proposed amendment at this stage of the litigation. There is no reason to believe the addition of a single affirmative defense will interfere with the timely completion of discovery. See Primetime 24 Joint Venture v. DirecTV, Inc., No. 99 Civ. 3307 (RMB) (MHD), 2000 WL 426396, at * 6 (S.D.N.Y. Apr. 20, 2000) (permitting amendment where possible additional discovery could be completed in remaining two-month discovery period); see also Burgee v. Patrick, No. 91 CV 3023 (MJL), 1996 WL 227819, at *4 (S.D.N.Y. May 3, 1996).

Furthermore, courts liberally allow amendment where, as here, a motion to amend sets forth a cognizable claim or defense. See, e.g., Remee Prods. Corp. v. Sho-Me Power Elec. Coop., No. 01 Civ. 5554(HB), 2002 WL 31323827, at * 9 (S.D.N.Y. Oct. 17, 2002) (motion to amend answer liberally granted "unless the proposed claim is clearly frivolous or legally insufficient on its face"). In light of Tiffany's documents and recent deposition testimony, which unambiguously support the allegation of an unclean hands defense, eBay's proposed amendment is both timely and appropriate. See Citizens Bank and Trust Co. v. Se-Fish Assocs., No. 99-CV-0417E(SR), 2002 WL 31017604, at *4 (W.D.N.Y. July 23, 2002) (granting leave to amend answer in light of information received during discovery).

II. EBAY'S PROPOSED AMENDMENT SETS FORTH A LEGALLY SUFFICIENT UNCLEAN HANDS DEFENSE

Unclean hands is an equitable remedy recognized by New York courts as an affirmative defense that may bar the enforcement of a plaintiff's trademark rights. De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc., No. 04 Civ. 4099 (DLC), 2005 WL 1164073, at *3 (S.D.N.Y. May 18, 2005); Estee Lauder, Inc. v. Fragrance Counter, 189 F.R.D. 269, 272 (S.D.N.Y. 1999) ("The doctrine of unclean hands is recognized as a valid defense . . . [in a] trademark infringement or unfair competition case, and can constitute a bar to some or all of the relief sought."); see also Clinton Worden & Co. v. California Fig Syrup Co., 187 U.S. 516, 528 (1903) ("[W]hen the owner of a trade-mark applies for an injunction to restrain the defendant from injuring his property by making false representations to the public, it is essential that the plaintiff should not in his trade-mark, or in his advertisements and business, be himself guilty of any false or misleading representation.").

A legally cognizable unclean hands defense requires (1) inequitable conduct on the plaintiff's part that is (2) related to the subject matter of the infringement suit. See, e.g., Fuddruckers, Inc. v. Doc's B.R.Others, Inc., 826 F.2d 837, 847 (9th Cir. 1987). Tiffany's misconduct need not rise to a crime or grounds for an independent suit in order to provide a basis for the assertion of an unclean hands defense. Rather, "[a]ny willful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for the invocation of the maxim." Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co., 324 U.S. 806, 815 (1945). Nor must eBay provide objective proof of how eBay members have interpreted Tiffany's misrepresentations. In that regard, Coca-Cola Co. v. Tropicana Prods. Inc., 690 F.2d 312 (2nd Cir. 1982), which Tiffany cites in its June 24, 2005 letter to the Court, is irrelevant to eBay's motion to amend because it involves analysis of a Lanham Act Section 43(a) false advertising claim, and not an unclean hands defense.

Further, contrary to Tiffany's claims in its June 24 letter, the defense of unclean hands is not limited to situations where the inequitable conduct at issue occurred in "acquiring" trademark rights. The very cases cited by Tiffany are explicit that "[u]nclean hands must relate to the getting or using the alleged trademark rights." Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc., 13 F. Supp. 2d 430, 445 (S.D.N.Y. 1998) (citing 5 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 31:51 (4th ed. 1998)) (emphasis added); Gidatex v. Campaniello Imports, Ltd., 82 F. Supp. 2d 126, 131 (S.D.N.Y. 1999) ("The alleged unclean hands must relate to Gidatex's acquisition or use of the Saporiti trademarks. . . .") (emphasis in original). Where, as here, a defendant has used its trademark to make blatant misrepresentations to encourage consumers to buy only directly from Tiffany to the exclusion of other legitimate sources, full discovery and a hearing on the merits of the unclean hands defense is warranted. See Estee Lauder, 189 F.R.D. 269 (denying motion to strike).

eBay's proposed affirmative defense amply satisfies the pleading elements of an unclean hands defense. The documents produced and deposition testimony provided by Tiffany form a solid basis for the allegation that Tiffany persistently has engaged in inequitable conduct; namely, Tiffany has made repeated false and misleading statements to the consumer public concerning the authenticity of goods (on eBay and elsewhere) bearing the Tiffany marks. In Tiffany's June 24 letter to the Court, Tiffany denies that it ever "alleged that all items bearing Tiffany marks that are offered for sale on eBay are counterfeit." See Rich Dec., Exhibit M at 1. Tiffany misconstrues the basis for eBay's motion to amend, which rests not on allegations in Tiffany's Complaint, but rather on, *inter alia*, the documents produced by Tiffany (such as those attached to this motion at Exhibits B and G) that abundantly demonstrate Tiffany's pattern and practice of making such false representations. Moreover, although Tiffany may not have included the subject misrepresentations as an allegation in its Complaint against eBay, the news article attached to the Complaint explicitly states Tiffany's claim that Tiffany's stores and website comprise the only places to purchase genuine Tiffany merchandise. See Complaint at Exhibit 1.

Similarly, through correspondence with eBay members, advertisements, and on its "About Me" webpage, which can be accessed from the eBay site, Tiffany repeatedly claims that only items purchased directly from Tiffany can be authentic or legitimate Tiffany merchandise. See Rich Dec., Exhibits B & G. It is self-evident that these statements are false – Tiffany's merchandise does not magically become counterfeit the moment it leaves a Tiffany store, nor does a consumer's decision to sell merchandise purchased from Tiffany directly to other consumers somehow render that merchandise counterfeit.

The basis for alleging the "inequitable" nature of Tiffany's misrepresentations is evident from these and other documents produced in this action, as well as deposition testimony, that demonstrate that Tiffany is fully aware of the false and misleading nature of its representations. Tiffany knows that owners of genuine Tiffany merchandise are entitled to auction their items on eBay and that it is not illegal to sell secondhand Tiffany jewelry on eBay or anywhere else. See Rich Dec., Exhibit E at 1711, 32110; see also Rich Dec., Exhibit K, Zalewska Tr. at 57. Moreover, as noted above, Tiffany routinely has purchased merchandise on eBay for Tiffany's corporate archives collection. See Rich Dec., Exhibit F, Sandecki Tr. at 10, 39-41.

Tiffany's over-broad statements necessarily imply that all items bearing Tiffany trademarks sold by anyone other than Tiffany stores, websites and catalogues – including items that are sold by eBay's users – are counterfeit. This also necessarily implies that eBay knows that all of the Tiffany-marked items being sold via its website are counterfeit, because any Tiffany item sold by anyone other than Tiffany is, according to Tiffany, fake. Apart from the fact that such statements by Tiffany are absurd on their face, they also provide more than adequate grounds for eBay to plead an affirmative defense of unclean hands.

These alleged misrepresentations, moreover, relate to the very trademark rights upon which Tiffany's infringement claims against eBay are based. See Estee Lauder, 189 F.R.D. at 272 (rejecting motion to strike unclean hands defense where misconduct involved the very right in suit). On the one hand, Tiffany is seeking the aid of this Court to protect its trademark rights from alleged sales of counterfeit goods via eBay. On the other hand, by perpetuating the false notion that products bearing the Tiffany marks are only available through Tiffany stores, catalogues and websites, Tiffany improperly enlarges the scope of the very trademark rights it seeks to assert. Thus while Tiffany alleges that the sale on eBay of counterfeit goods bearing the Tiffany marks is "intended to cause and has caused confusion, mistake or deception of the trade and public. . . ." (see Complaint at ¶ 36), Tiffany, by claiming that the only way to purchase authentic Tiffany merchandise is from Tiffany outlets, itself creates a likelihood of confusion as to legitimate sources of genuine Tiffany merchandise. Tiffany's misrepresentations also bear directly on whether goods sold on eBay bearing its trademark are genuine, a critical component of its allegations against eBay. Indeed, Tiffany's statements potentially deter eBay users from purchasing Tiffany merchandise from anywhere other than Tiffany outlets, and amply illustrate Tiffany's unlawful effort to extend its trademark rights to deter legitimate secondary market sales.

To support its position that eBay's motion to amend is based on conduct not sufficiently related to the trademark rights at issue, Tiffany's June 24 letter relies on two cases that are readily distinguishable. In De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc., No. 04 Civ. 4099 (DLC), 2005 WL 1164073, at *4 (S.D.N.Y. May 18, 2005), the rejected allegation of unclean hands was based on the plaintiff's monopolistic practices, including price fixing, which was clearly unrelated to the trademark rights at issue. Similarly, in Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc., 13 F. Supp. 2d 430, 445 (S.D.N.Y. 1998), the asserted unclean hands defense was based on plaintiff's bad faith in initiating litigation. Thus, unlike here, neither of these cases involved an allegation of inequitable conduct based on plaintiff's *use* of the very trademark rights in suit. By contrast, Tiffany's inequitable conduct arises from its use of the trademarks in suit to make repeated misrepresentations that create confusion about the sources of genuine Tiffany merchandise – a major issue in this case. These misrepresentations thus relate directly to the trademark rights at issue and clearly support eBay's unclean hands defense.

CONCLUSION

For the foregoing reasons, eBay respectfully requests that the Court grant its Motion to Amend its Answer.

Dated: New York, New York
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